

## Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 /102 W

----- 071235

R 011146Z MAR 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 538

INFO AMEMBASSY ABU DHABI

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY HIDDA

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY TEHRAN

USMISSION OECD PARIS

USINT BAGHDAD

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EO 11652: NA

TAGS: EGEN, ENRY, EWWT, EG

SUBJECT: SUMED PIPELINE

REF: KUWAIT 572

SUMMARY: SUMED PIPELINE WILL SOON BE IN OPERATION, BUT  
CONFUSION OVER ECONOMIC VIABILITY CONTINUES. REASONABLE  
AND ARTICULATE VIEWS APPEAR ON BOTH SIDES OF THE QUESTION,  
AND WASHINGTON'S ANALYSIS IS AGAIN REQUESTED. END SUMMARY

1. QUESTION OF SUMED PIPELINE ECONOMICS IS MATTER  
OF INCREASING INTEREST AS PROJECT APPROACHES COMPLETION.  
DIVERGENT VIEWS PERMIT WIDE RANGE OF FORECASTS AS TO  
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HOW MATTER WILL WORK OUT. WHERE PARTICULAR INDIVIDUAL

STANDS ON THIS SUBJECT, AS IS USUALLY THE CASE,  
APPEARS TO DEPEND LARGELY ON WHERE HE SITS.

2. REFTTEL REPORTED THAT KUWAITIS, WHO HOLD 15  
PERCENT OF PROJECT, ARE CONFIDENT IT WILL BE BOTH  
VIAABLE AND SUCCESSFUL. RATIONALE IS THAT GIANT  
TANKE, WHICH CANNOT TRANSIT CANAL, WILL OFF-LOAD  
THROUGH SUMED TO SMALL TANKERS FOR SOUTHERN EUROPEAN  
PORTS. ACCORDING TO THIS THESIS, IT IS LESS EXPENSIVE  
THAN HAVING SMALL TANKERS LOAD IN GULF AND TRANSIT CANAL  
TO MED PORTS, WHICH CANNOT BE SERVED DIRECTLY BY VLCC'S,  
OR HAVING SUPERS CARRY OIL TO ROTTERDAM AND THENCE  
BY PIPELINE TO SOUTHERN EUROPE. THIS IS RATIONAL  
AND REASONABLE APPRECIATION OF SITUATION, SHARED BY  
OTHERS, AND MAY IN FACT BE WHAT WILL HAPPEN. IT APPEARS  
TO LEAN HEAVILY ON WHAT IS WANTED, HOWEVER, RATHER THAN  
ON IN-DEPTH ANALYSIS OF REALITIES OF PRESENT MARKET.

3. AT TIME OF ITS INCEPTION MOST OBSERVERS AGREE, SUMED AS  
AN EXCELLENT IDEA. CANAL WAS CLOSED, INTERNATIONAL DEMAND WAS  
INCREASING RAPIDLY, AND SUPER TANKERS HAD NOT YET  
REALLY TAKEN OVER. WITH RECENT DROP IN CHARTER  
RATES FOR VLCC'S, AND LOWERED DEMAND FOR OIL, ACCORDING TO OIL  
JOURNALS, PIPELINE ALTERNATIVE IS LESS ATTRACTIVE. SOME STUDIES  
INDICATE THAT TOTAL TRANSPORTATION COSTS FOR SMALLER TANKERS  
TRANSITING CANAL WILL BE LESS THAN VLCC/SUMED SMALL TANKER METHOD  
OUTLINED ABOVE, PARTICULARLY IF CHARGES PER BARREL ARE ROUGHLY  
SAME FOR CANAL AND SUMED, AS IS PROJECTED.

THERE IS ALSO QUESTION OF USING VLCC'S FOR SHORT  
HAUL TO SUEZ, WHICH DEFEATS ECONOMICS OF SIZE.

4. WE HAVE ALSO BEEN ADVISED BY OIL COMPANY REPS THAT USER CONTRACTS  
FOR SUMED EXPIRED IN DECEMBER. (ACTUALLY, ACCORDING TO OUR  
INFORMATION, THEY BECAME NULL AND VOID SINCE PIPELINE  
DID NOT BECOME OPERATIONAL AT THAT TIME AS STIPULATED).  
NO EFFORT WAS MADE TO SECURE AGREEMENT TO EXTENSIONS OR  
AMENDEMENTS, WHICH OUR SOURCES SUGGEST WOULD NOT HAVE BEEN  
OBTAINABLE. COMPANIES APPEAR GLAD TO BE OUT OF  
SUMED CONTRACTS, SIGNED WHEN CIRCUMSTANCES WERE DIFFERENT,  
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AND ALTERNATIVES, I.E. VLCC'S, LESS ATTRACTIVE AND LESS  
AVAILABLE.

5. ANOTHER FACTOR THAT SHOULD BE CONSIDERED  
SEPARATELY IS COMPETITION, ONLY OBLIQUELY MENTIONED  
ABOVE. IF SUMED CUTS INTO SUEZ CANAL REVENUES, AS SEEMS  
TO BE INCLUDED IN KUWAITI THINKING, EGYPTIANS CAN BE  
EXPECTED TO LOOK ON IT WITH SOMETHING, EGYPTIANS CAN BE

EXPECTED TO LOOK ON IT WITH SOMETHING LESS THAN EAGER ENTHUSIASM. GOE OWNS 100 PERCENT OF CANAL (AS FAR AS REVENUES GO) BUT ONLY 50 PERCENT OF SUMED, AND BOTH ARE SOURCES OF HARD CURRENCY. THERE MAY BE ADDITIONAL INCOME FROM SUMED TRANSIT CHARGES, BUT THERE ARE ALSO PLANS TO EXPEND LARGE AMOUNTS ON DEEPENING AND WIDENING CANAL TO TAKE LARGER- AND THEREFORE MORE EFFICIENT IN TERMS OF PER BARREL COST- CRUDE CARRIERS. THUS THERE IS STRONG POSSIBILITY THAT COMPETITION MAY DEVELOP OVER SUMED OPERATIONS IN IMMEDIATE AREA. EUROPEAN PIPELINES MAY ALSO DECIDE TO COMPETE, IF, AS KUWAITS SAY, SUMED WILL EAT INTO THEIR REVENUES.

6. FINALLY, QUESTION OF PUMPING AND STORING DIFFERENT QUALITIES OF CRUDE OIL, COSTLY TIME SPENT IN LINING UP VLCC'S TO PUMP OUT, TIME LOST IN FREQUENT BAD WEATHER AT OTHER END, AND LIKELY CONTINUATION OF LOW CHARTER RATES FOR SUPER TANKERS ALL POINT TO POTENTIAL PROBLEMS.

7. ON OTHER SIDE OF LEDGER, IT COULD BE THAT SINCE KUWAIT AND SAUDI ARABIA HAVE NATIONALIZED THEIR OIL, THEY PLAN TO USE PERSUASION TO ENCOURAGE USE OF SUMED, E.G., LIFTINGS FOR COMPANY X WILL BE FACILITATED IF A GIVEN PERCENT GOES VIA PIPELINE. CONFIDENCE OF KFTCIC OFFICIAL MENTIONED REFTL MIGHT REFLECT IWLLINGNESS OF THESE TWO COUNTRIES TO UTILIZE THEIR OWN TANKER FLEETS AND SUMED TO MARKET OIL EX-ALEXANDRIA, WITH TRANSIT COSTS INCLUDED IN PRICE.

8. RECOGNIZING THAT ISSUE IS PERHAPS EMOTIONAL AS WELL AS COMPLICATED, EMBASSY SENDS EXCELLENT SUGGESTION MADE REFTL THAT DEPARTMENT PROVIDE PROJECTIONS AS TO SUMED AND ITS ECONOMIC FUTURE. WE NOTE THAT LITTLE LIMITED OFFICIAL USE

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IS HEARD THESE DAYS OF IRAN'S EARLIER INTEREST IN BUILDING ANOTHER LINE PARALLEL TO CANAL, BUT NUMBER OF FACTORS BESIDES PROFITABILITY COULD BE AT WORK. EILTS

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## Message Attributes

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